

Message Text

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ACTION NEA-11

INFO OCT-01 EUR-12 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00
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FM AMEMBASSY DAMASCUS
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INFO USDOC WASHDC
AMEMBASSY ABU DHABI
AMEMBASSY ALGIERS
AMEMBASSY AMMAN
AMEMBASSY ANKARA
AMEMBASSY ATHENS
AMEMBASSY BEIRUT
USINT BAGHDAD
AMEMBASSY CAIRO
AMEMBASSY DHAHRAN
AMEMBASSY DOHA
AMCONSUL ISTANBUL
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LONDON
AMEMBASSY MANAMA
AMEMBASSY MUSCAT
USLO RIYADH
AMEMBASSY TEHRAN
AMEMBASSY TEL AVIV
AMEMBASSY TRIPOLI

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C O R R E C T E D C O P Y (TEXT PARA 4)

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E.O. 11652: N/A
TAGS: ENRG, ELTN, SY
SUBJECT: SARG PROPOSAL FOR NEW GULF-MEDITERRANEAN PIPELINE

1. LOCAL PRESS HAS REPORTED THAT SYRIAN GOVERNMENT
MINISTER OF PETROLEUM, ISSA DARWISH, DURING THE MINISTERIAL
COUNCIL MEETING OF THE ORGANIZATION OF ARAB PETROLEUM-

EXPORTING COUNTRIES (OAPEC) AT KUWAIT, MAY 8-9, PROPOSED THE CONSTRUCTION OF A "STRATEGIC PIPELINE" LINKING THE OIL PRODUCING GULF STATES WITH THE MEDITERRANEAN. IN HIS PRESS CONFERENCE, DARWISH LINKED PIPELINE PROPOSAL WITH COMPLAINTS THAT THE ARAB STATES REFINED ONLY FIVE PERCENT OF THEIR PRODUCTION. DARWISH PROPOSED THAT JOINT ARAB PETROLEUM VENTURES IN REFINING AND PETROCHEMICALS BE BUILT ALONG THE MEDITERRANEAN COAST (FOR EUROPEAN MARKETS) AND IN THE GULF (FOR JAPANESE MARKETS). SUCH VENTURES COULD TAKE ADVANTAGE OF THEIR PROXIMITY TO THEIR MARKETS, ESPECIALLY IF THEY WERE LINKED BY PIPELINE.

2. IN DISCUSSION WITH EMBOFF, DIRECTOR GENERAL OF THE SYRIAN PETROLEUM COMPANY, ISSA IBRAHIM, ELABORATED SOMEWHAT ON SARG MINISTER'S PROPOSAL. IBRAHIM JUSTIFIED PETROLEUM JOINT VENTURES ON GROUNDS THAT COST OF TRANSPORTING CRUDE BY TANKER WAS HIGH AND THAT THERE EXISTED AN IMBALANCE BETWEEN ARAB AND EUROPEAN REFINING CAPACITIES. NEW PIPELINE WOULD NOT ONLY PROVIDE CHEAPER TRANSPORT OF CRUDE TO EUROPE IT WOULD ALSO FORM BASIS OF NEW REFINING AND PETRO-CHEMICAL COMPLEXES IN SYRIA. PRESSED FOR SPECIFICS, IBRAHIM CITED BOTH SIX MILLION METRIC TON BANIAS REFINERY, NOW UNDER CONSTRUCTION, AND GAS LIQUIFICATION PROJECT NOW BEING TENDERED. FORMER PROJECT WOULD BENEFIT FROM PROPOSED PIPELINE, WHICH WOULD PROVIDE LOW COST CRUDE TO ENSURE THAT IT WOULD PRODUCE AT FULL CAPACITY; LATTER PROJECT OFFERED BASE FOR LIMITED OFFICIAL USE

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FURTHER DOWNSTREAM INVESTMENT IN PETROCHEMICALS. IBRAHIM ACKNOWLEDGED, HOWEVER, THAT LONG FEASIBILITY AND TECHNICAL STUDIES OF PIPELINE PROJECT WERE REQUIRED, AND THAT VIEWS OF OIL-PRODUCING STATES, ESPECIALLY SAUDI ARABIA, WOULD PROVE DECISIVE.

3. COMMENT: NEW PIPELINE WOULD BE OBVIOUS BOON TO SYRIAN ECONOMY, AND FORMS A PART OF SYRIAN PLANS TO EXPLOIT ITS GEOGRAPHICAL POSITION TO CONSTITUTE THE "WORKSHOP" OF THE GULF STATES. TRANSIT REVENUE FROM PIPELINE WOULD CERTAINLY BE WELCOME, FOLLOWING LOSS OF FEES FROM IRAQ PETROLEUM COMPANY (IPC) PIPELINE (REVENUES FROM WHICH REACHED \$95 MILLION IN 1975; IN 1977 THE BENEFIT WAS NIL). MOREOVER, PIPELINE COULD HELP IN OPERATIONS OF BOTH THE BANIAS REFINERY, (SCHEDULED FOR TEST RUN IN SEPTEMBER, 1978 AND FOR OPERATION EARLY 1979) AND THE HOMS REFINERY (RECENTLY UPGRADED TO 5 MILLION METRIC TONS PER YEAR.). BOTH REFINERIES UTILIZE A MIXTURE OF 50 PERCENT SYRIAN OIL (MAXIMUM) AND 50 PERCENT IMPORTED CRUDE, DUE TO TECHNICAL PROBLEMS INVOLVED IN REFINING SYRIA'S HEAVY CRUDE, REQUIRING IMPORT VIA TANKER FROM OTHER SOURCES, INCLUDING TAPLINE TERMINAL AT SAIDA IN LEBANON.

PROPOSED PIPELINE WOULD PROVIDE (AS THE IPC ONCE PROVIDED),
A RELATIVELY CHEAP SOURCE OF "SWEET" CRUDE.

4. BENEFITS FOR OTHER OIL PRODUCING STATES, HOWEVER,
ARE MORE PROBLEMATIC. SEVERAL FACTORS WOULD NEED TO BE
EXAMINED IN ASSESSING SARG PROPOSAL A) EXISTENCE OF
ALTERNATIVE ROUTES: GULF-ADEN, GULF-RED SEA, GULF-
IRAQ-TURKEY; B) POSSIBILITY OF UTILIZING PARTS OF EXISTING
FACILITIES OF UNUSED IPC AND PARTIALLY UTILIZED TAPLINE
PIPELINE; C) INTEREST OF GULF STATES, PARTICULARLY KUWAIT
AND SAUDI ARABIA, IN CONSTRUCTING THEIR OWN REFINING
AND PETROCHEMICAL COMPLEXES, WHICH WOULD OPERATE IN
COMPETITION WITH SYRIAN PLANS; D) ECONOMICS OF THE CRUDE
AND PRODUCT MARKETS: DOWNWARD PRESSURE OF PIPELINE ON OIL
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PRICE BY INCREASING COMPETITION BETWEEN GULF AND NORTH
AFRICAN PRODUCERS, AND PROBABILITY OF EXCESS CAPACITY IN
WORLD REFINING; E) POLITICAL CONSIDERATIONS: SYRIAN
PROXIMITY TO ISRAEL; ITS BAATHI GOVERNMENT, SYRIA'S
INVOLVEMENT IN LEBANON AND ARAB-ISRAEL DISPUTES; DESIRE BY
SAUDI ARABIA AND OTHER PRODUCERS NOT TO GIVE SYRIA POSITION
OF INFLUENCE OVER THEIR PETROLEUM POLICIES. OBVIOUSLY,
THIS PROPOSAL IS NOT FOR TODAY OR EVEN TOMORROW
IF EVER.
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